

Risks Are Cited In Bank-Broker Combinations

By LESLIE EATON

As Congress prepares to vote this week on a sweeping overhaul of the laws that have historically separated banks and brokerage firms, Federal regulators yesterday issued a pointed reminder of the risks these changes may pose for consumers.

Officials led by Arthur Levitt Jr., chairman of the Securities and Exchange Commission, announced that Nationsbank, one of the country's largest financial institutions, had agreed to pay almost \$7 million to settle charges that it misled customers who bought two bond funds in 1993 and 1994.

In an early effort to combine banking and brokerage services, Nationsbank started a securities business in 1993 with the firm now known as Morgan Stanley Dean Witter; the brokers worked side by side with the bank's own employees.

The bank deliberately blurred the distinction between its employees and the stockbrokers, Mr. Levitt said, "to capitalize on the belief that bankers are more trustworthy than brokers."

The brokers also misled investors, many of whom were elderly people who had previously invested in federally guaranteed certificates of deposit, about the risks of investing in the funds, regulators contended. In late 1995, the bank settled a class-action lawsuit by infusing \$20 million into the funds, which had suffered dramatic declines in 1994.

Nationsbank agreed to pay the fines without admitting or denying regulators' allegations. The bank had previously settled cases brought by Texas and Florida.

In a statement, bank officials said they had changed their procedures, and noted that the Comptroller of the Currency, who regulates banks, said her office did not have concerns about current practices at the bank. "It is very clear that the subject of today's press conference by regulators concerns the future of the sales of securities in a bank environment," according to the bank's statement.

Such sales may indeed be affected if the House of Representatives passes a bill, scheduled for consideration on Thursday, that would eliminate the barriers that have kept banks largely out of the securities



Associated Press

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business, and have prevented brokerage firms from owning banks. In the future, a single organization would be able to offer securities, insurance and loans — as well as take deposits — if the Senate also passes similar legislation.

To some extent, Congress is simply catching up with developments in the business world, where bank regulators have increasingly allowed banks to buy brokerage firms. And they have been doing so; Nationsbank itself last year bought Montgomery Securities.

But Wall Street would like even looser restrictions on its business, including the right to buy banks; this "two way street" provision is one of the main reasons the House bill is supported by the Securities Industry Association, a spokeswoman said.

David H. Komansky, the chairman of Merrill Lynch & Company, and Sanford I. Weill, chairman of the Travelers Group, are arriving in Washington today to lobby for such

changes, their offices confirmed last night. Mr. Weill's company, an insurance giant, which also owns the brokerage firm Salomon Smith Barney, said last month that it planned to merge with the banking behemoth Citicorp.

Not everyone is enthusiastic about the prospect of trying to merge banks and brokerage firms. "They should have different cultures — banks are meant to be more prudent," said Charles R. Geisst, a professor of finance at Manhattan College and the author of "Wall Street:

A History" (Oxford University Press, 1997). Brokers generally "don't have the same fiduciary responsibilities" he added, "and I just don't know how you fuse the two."

And consumer watchdogs said that the problems at Nationsbank were "a perfect example of what can go wrong when we blur the line between banks and securities firms," in the words of Barbara Roper, director of investor protection for the Consumers Federation of America.

The House bill is likely to include some improved protections for consumers, said Mary Griffin, counsel for Consumers Union, which publishes Consumer Reports. Sponsors of the bill, led by Representative James A. Leach, Republican of Iowa, chairman of the House Banking Committee, have agreed to accept an amendment proposed by Representative John D. Dingell, Democrat of Michigan, which is supported by consumer groups.

Mr. Dingell used the Nationsbank settlement to press for his proposal, which would give the Securities and Exchange Commission more power to regulate brokerage activities in banks. And he criticized the Comptroller's office for being slow to act on evidence of problems at the bank, suggesting that regulators may have been "negligent, corrupt or an active participant in wrongdoing by Nationsbank."

Though the situation at Nationsbank arose several years ago and has been widely publicized, similar problems could occur today, regulators said. "There's still a large number of people who don't understand we are in the midst of a financial revolution," said Denise Voigt Crawford, the Texas Securities Commissioner. "You have to be more savvy than you used to be about who you are dealing with and risks and rewards."

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